

# U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-QSB

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended March 31, 2007**

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 000-51080**

### **CHEMOKINE THERAPEUTICS CORP.**

(Name of small business issuer in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation of organization)

**33-0921251**

(I.R.S. Employer  
Identification No.)

**6190 Agronomy Road, Suite 405**

**University of British Columbia**

**Vancouver, British Columbia V6T 1Z3**

(Address of principal executive offices) (Zip Code)

**(604) 822-0301**

(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 1, 2007, there were 42,183,748 shares of the issuer's common stock issued and outstanding, par value \$0.001.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

**CHEMOKINE THERAPEUTICS CORP.**  
**MARCH 31, 2007, QUARTERLY REPORT ON FORM 10-QSB**

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**PART I**

**ITEM 1. FINANCIAL STATEMENTS**

**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**  
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**March 31, 2007**

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**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**  
**INTERIM CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,570,975	\$ 4,446,668
Short-term investments	992,437	1,642,308
Amounts receivable	67,540	60,366
Amount due from affiliate (Note 5)	263,929	–
Prepaid expense and deposits	87,436	103,816
<b>TOTAL CURRENT ASSETS</b>	4,982,317	6,253,158
<b>AMOUNT DUE FROM AFFILIATE (Note 5)</b>	–	253,263
<b>PROPERTY AND EQUIPMENT, net</b>	612,395	332,440
<b>LICENSE COSTS, net</b>	14,375	16,299
	<b>\$ 5,609,087</b>	<b>\$ 6,855,160</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 492,021	\$ 377,915
Promissory note payable to affiliate (Note 5)	219,778	–
Current portion of capital lease obligation	12,710	12,392
<b>TOTAL CURRENT LIABILITIES</b>	724,509	390,307
<b>CAPITAL LEASE OBLIGATION</b>	5,549	8,722
	730,058	399,029
<b>COMMITMENTS (Note 6)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
<b>PREFERRED STOCK</b>		
Authorized – 6,000,000 shares; par value \$ 0.001 per share		
Issued and outstanding shares: March 31, 2007 and December 31, 2006 – Nil	–	–
<b>COMMON STOCK (Note 3)</b>		
Authorized – 100,000,000 shares; par value \$ 0.001 per share		
Issued and outstanding shares: March 31, 2007 and December 31, 2006 – 42,183,748	42,184	42,184
<b>ADDITIONAL PAID-IN CAPITAL</b>	30,992,194	30,957,359
<b>(DEFICIT) ACCUMULATED DURING THE DEVELOPMENT STAGE</b>	(26,155,349)	(24,543,412)
	4,879,029	6,456,131
	<b>\$ 5,609,087</b>	<b>\$ 6,855,160</b>

*See accompanying notes to the interim consolidated financial statements.*

**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	Three months ended March 31,		Cumulative from inception on July 15, 1998 to March 31, 2007
	2007	2006	
REVENUE	\$ —	\$ —	\$ 275,000
EXPENSES			
Research and development	715,246	1,421,008	15,310,971
General and administrative	862,805	630,705	11,116,401
Stock-based compensation	34,835	34,647	592,954
Amortization of license	1,923	1,924	36,227
Depreciation & amortization of property and equipment	74,561	35,733	420,652
	<u>1,689,370</u>	<u>2,124,017</u>	<u>27,477,205</u>
OTHER INCOME			
Foreign exchange gain (loss)	20,861	(35,571)	387,806
Interest income	56,572	49,201	659,050
	<u>77,433</u>	<u>13,630</u>	<u>1,046,856</u>
NET LOSS	\$ <u>(1,611,937)</u>	\$ <u>(2,110,387)</u>	\$ <u>(26,155,349)</u>
NET LOSS PER COMMON SHARE FOR THE PERIOD - BASIC AND DILUTED	\$ <u>(0.04)</u>	\$ <u>(0.06)</u>	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>42,183,748</u>	<u>33,055,733</u>	

*See accompanying notes to the interim consolidated financial statements.*

**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**

**INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**Period from inception on July 15, 1998 to December 31, 1998**  
**and periods ended December 31, 1999 through 2006 and March 31, 2007**  
**(Unaudited)**

	<b>Common stock</b>		<b>Preferred stock</b>		<b>Additional paid-in capital</b>	<b>Share subscriptions</b>	<b>Deferred stock compensation</b>	<b>(Deficit) accumulated during the development stage</b>	<b>Stockholders' equity</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>					
Inception, July 15, 1998	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of common stock for cash	1	—	—	—	70,650	—	—	—	70,650
Issuance of preferred stock for cash	—	—	6,000,000	6,000	(4,800)	—	—	—	1,200
Net loss	—	—	—	—	—	—	—	(6,212)	(6,212)
Balances at December 31, 1998	1	—	6,000,000	6,000	65,850	—	—	(6,212)	65,638
Issuance of common stock and subscriptions on private placement, net of offering costs of \$ 58,794	263,535	264	—	—	342,332	461,205	—	—	803,801
Issuance of warrants for consulting services	—	—	—	—	1,400	—	—	—	1,400
Net loss	—	—	—	—	—	—	—	(408,237)	(408,237)
Balances at December 31, 1999	263,536	264	6,000,000	6,000	409,582	461,205	—	(414,449)	462,602
Issuance of common stock and subscriptions on private placement, net of offering costs of \$ 214,300	783,228	783	—	—	1,116,790	(461,205)	—	—	656,368
Conversion of preferred stock	6,000,000	6,000	(6,000,000)	(6,000)	—	—	—	—	—
Issuance of options for consulting services	—	—	—	—	87,968	—	—	—	87,968
Deferred stock compensation	—	—	—	—	83,500	—	(83,500)	—	—
Amortization of deferred stock compensation	—	—	—	—	—	—	32,920	—	32,920
Net loss	—	—	—	—	—	—	—	(1,020,963)	(1,020,963)
Balances at December 31, 2000	7,046,764	7,047	—	—	1,697,840	—	(50,580)	(1,435,412)	218,895
Issuance of stock for cash	—	—	150,000	150	187,350	—	—	—	187,500
Issuance of common shares net of offering costs of \$ 64,585	1,280,496	1,280	—	—	1,362,532	—	—	—	1,363,812
Issuance of warrants for offering costs	—	—	—	—	17,850	—	—	—	17,850
Cancellation of stock options	—	—	—	—	(50,580)	—	50,580	—	—
Net loss	—	—	—	—	—	—	—	(1,743,962)	(1,743,962)
Balances at December 31, 2001	8,327,260	8,327	150,000	150	3,214,992	—	—	(3,179,374)	44,095

See next page

*See accompanying notes to the interim consolidated financial statements*

**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**

**INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**Period from inception on July 15, 1998 to December 31, 1998**  
**and periods ended December 31, 1999 through 2006 and March 31, 2007**  
**(Unaudited)**

	<b>Common stock</b>		<b>Preferred stock</b>		<b>Additional paid-in capital</b>	<b>Share subscriptions</b>	<b>Deferred stock compensation</b>	<b>(Deficit) accumulated during the development stage</b>	<b>Stockholders' equity</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>					
Issuance of common stock net of offering costs of \$ 194,474	1,492,970	\$ 1,493	—	\$ —	\$ 1,677,746	\$ —	\$ —	\$ —	\$ 1,679,239
Issuance of warrants for consulting services	—	—	—	—	139,725	—	—	—	139,725
Issuance of warrants for offering costs	—	—	—	—	62,871	—	—	—	62,871
Capital distribution on sale of subsidiary to related party	—	—	—	—	42,064	—	—	—	42,064
Net loss	—	—	—	—	—	—	—	(2,234,061)	(2,234,061)
Balances at December 31, 2002	9,820,230	9,820	150,000	150	5,137,398	—	—	(5,413,435)	(266,067)
Issuance of common stock net of offering costs of \$ 130,628	577,852	578	—	—	644,395	—	—	—	644,973
Issuance of preferred shares	—	—	2,000,000	2,000	2,698,000	—	—	—	2,700,000
Issuance of warrants for consulting services	—	—	—	—	21,835	—	—	—	21,835
Issuance of warrants for offering costs	—	—	—	—	22,454	—	—	—	22,454
Net loss	—	—	—	—	—	—	—	(2,506,705)	(2,506,705)
Balances at December 31, 2003	10,398,082	10,398	2,150,000	2,150	8,524,082	—	—	(7,920,140)	616,490
Issuance of common stock net of offering costs of \$ 2,234,671	17,915,714	17,916	—	—	12,144,538	—	—	—	12,162,454
Issuance of common stock for agent's fee	628,977	629	—	—	352,054	—	—	—	352,683
Issuance of common stock for settlement of debt	247,100	247	—	—	199,753	—	—	—	200,000
Issuance of common stock for finder's fees	3,333	3	—	—	4,497	—	—	—	4,500
Conversion of preferred stock to common stock	150,000	150	(150,000)	(150)	—	—	—	—	—
Issuance of warrants for consulting services	—	—	—	—	241,882	—	—	—	241,882
Issuance of warrants for offering costs	—	—	—	—	98,509	—	—	—	98,509
Issuance of warrants for finder's fees	—	—	—	—	3,900	—	—	—	3,900
Stock-based compensation	—	—	—	—	51,581	—	—	—	51,581
Net loss	—	—	—	—	—	—	—	(3,095,240)	(3,095,240)
Balances at December 31, 2004	29,343,206	29,343	2,000,000	2,000	21,620,796	—	—	(11,015,380)	10,636,759

See next page

*See accompanying notes to the interim consolidated financial statements.*

**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**

**INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**Period from inception on July 15, 1998 to December 31, 1998**  
**and periods ended December 31, 1999 through 2006 and March 31, 2007**  
**(Unaudited)**

	Common stock		Preferred stock		Additional paid-in capital	Share subscriptions	Deferred stock compensation	(Deficit) accumulated during the development stage	Stockholders' equity
	Shares	Amount	Shares	Amount					
Issuance of common stock net of offering costs of \$ 278,023	2,400,000	\$ 2,400	—	\$ —	\$ 1,658,297	\$ —	\$ —	\$ —	\$ 1,660,697
Conversion of warrants to common shares	102,000	102	—	—	85,050	—	—	—	85,152
Issuance of common stock	52,000	52	—	—	(52)	—	—	—	—
Issuance of warrants for agent's fee	—	—	—	—	49,453	—	—	—	49,453
Issuance of warrants for offering costs	—	—	—	—	14,888	—	—	—	14,888
Stock-based compensation	—	—	—	—	289,533	—	—	—	289,533
Net loss	—	—	—	—	—	—	—	(6,020,166)	(6,020,166)
Balances at December 31, 2006	31,897,206	31,897	2,000,000	2,000	23,717,965	—	—	(17,035,546)	6,716,316
Issuance of common stock net of offering costs of \$ 426,228	6,471,698	6,472	—	—	5,408,860	—	—	—	5,415,332
Conversion of preferred stock to common stock	2,000,000	2,000	(2,000,000)	(2,000)	—	—	—	—	—
Conversion of warrants to common shares	1,762,844	1,763	—	—	1,556,700	—	—	—	1,558,463
Issuance of common stock for options exercised	52,000	52	—	—	44,413	—	—	—	44,465
Issuance of warrants for agent's fee	—	—	—	—	45,336	—	—	—	45,336
Stock-based compensation	—	—	—	—	184,085	—	—	—	184,085
Net loss	—	—	—	—	—	—	—	(7,507,866)	(7,507,866)
Balances at December 31, 2006	42,183,748	42,184	—	—	30,957,359	—	—	(24,543,412)	6,456,131
Stock-based compensation	—	—	—	—	34,835	—	—	—	34,835
Net loss	—	—	—	—	—	—	—	(1,611,937)	(1,611,937)
Balances at March 31, 2007	42,183,748	\$ 42,184	—	\$ —	\$ 30,992,194	\$ —	\$ —	\$ (26,155,349)	\$ 4,879,029

*See accompanying notes to the interim consolidated financial statements.*

**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW**  
**(Unaudited)**

	Three months ended March 31,		Cumulative from inception on July 15, 1998 to March 31,
	2007	2006	2007
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (1,611,937)	\$ (2,110,387)	\$ (26,155,349)
Adjustments to reconcile net cash provided (used) by operating activities			
Depreciation and amortization	76,484	37,657	456,879
Common shares issued for consulting services	—	—	1,033,669
Warrants issued for consulting services	—	—	404,842
Options issued for consulting services	—	—	87,968
Stock-based compensation	34,835	34,647	592,954
Decrease (increase) in			
Amounts receivable	(7,174)	(13,036)	(67,540)
Prepaid expense and deposits	16,380	35,256	(87,436)
Increase (decrease) in			
Accounts payable and accrued liabilities	114,106	117,357	492,021
Cash provided (used) by operating activities	(1,377,306)	(1,898,506)	(23,241,992)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Stock issued for cash	—	6,815,667	31,647,476
Stock issued for settlement of debt	—	—	200,000
Offering costs	—	(402,088)	(2,974,596)
Net advances (to) from affiliates	(10,666)	525,244	(217,111)
Promissory note payable to affiliate	219,778	—	219,778
Capital lease payments	(2,855)	(2,970)	(16,391)
Cash provided (used) by financing activities	206,257	6,935,853	28,859,156
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Cash held by disposed subsidiary	—	—	(4,754)
Purchase of short-term investments	(928,083)	(5,717,078)	(17,299,691)
Redemption of short-term investments	1,577,955	—	16,307,256
Payment under license agreement	—	—	(50,603)
Purchase of property and equipment	(354,516)	(78,620)	(998,397)
Cash provided (used) by investing activities	295,356	(5,795,698)	(2,046,189)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	(875,693)	(758,351)	3,570,975
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	4,446,668	3,719,163	—
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 3,570,975	\$ 2,960,812	\$ 3,570,975

*See accompanying notes to the interim consolidated financial statements.*

**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2007**  
**(Unaudited)**

**1. DESCRIPTION OF BUSINESS**

Chemokine Therapeutics Corp. (the "Company") was incorporated in the State of Washington on July 15, 1998 as PTM Molecular Biosystems Inc. In 1999, the Company changed its name to Chemokine Therapeutics Corp. and in 2000 was reincorporated in the State of Delaware.

The Company is in the business of discovering and developing innovative therapeutic products for the treatment of a variety of human diseases. As of March 31, 2007, the Company is considered a development stage company as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7"). The Company commenced operations in July 1998 and has been devoting most of its efforts to date in raising capital and in research and development. At March 31, 2007, the Company had not commenced planned principal operations and, as shown in the accompanying financial statements, has incurred losses during the period from inception to March 31, 2007 of \$ 26,155,349.

The Company is subject to all of the risks inherent in an early stage business operating in the biotechnology industry. These risks include, but are not limited to, a limited operating history, limited management resources, and the challenges of bringing a drug through development to approval for sale. Management believes that the current working capital will be sufficient to fund the Company's operations through January 31, 2008. The Company also intends to seek additional financing from external sources through the sale of shares.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with the United States ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). These unaudited interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes of the Company in its Annual Report on Form 10-KSB for the year ended December 31, 2006 as filed with the SEC on April 16, 2007.

The unaudited interim consolidated financial statements reflect, in the opinion of management, all adjustments (including of normal recurring items) considered necessary for a fair presentation of the consolidated financial position, results of operations and cash flows. All significant intercompany accounts and transactions have been eliminated. Results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007 or future operating periods. Significant accounting policies utilized in the preparation of the unaudited interim consolidated financial statements are summarized below:

**Basis of consolidation**

The consolidated financial statements include the accounts of the Company, its former wholly-owned Canadian subsidiary, Chemokine Therapeutics Inc., through to June 9, 2002, the date of disposal of the subsidiary and its wholly-owned Canadian subsidiary Chemokine Therapeutics (B.C.) Corp.

**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES – continued**

**Revenue recognition**

Revenue is not recognized until the product or service has been delivered or otherwise earned, all contractual obligations have been satisfied and collection of amounts due to the Company is reasonably assured. Amounts received by the Company prior to the recognition of associated revenue are reflected on the balance sheet as deferred revenue.

**Research and development**

Research and development expenses are expensed as incurred. Upfront and milestone payments made to third parties in connection with specific research and development projects are expensed as incurred up to the point of regulatory approval. Payments made to third parties subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the related product.

**Income taxes**

Income taxes are accounted for under the asset and liability method prescribed by Statement of Financial Accounting Standards (“SFAS”) No. 109, “*Accounting for Income Taxes*.” Deferred income taxes are recorded for temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities reflect the tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax asset will not be realized.

On January 1, 2007, the Company adopted Financial Accounting Standard Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48), which prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, and disclosure for uncertain tax positions.

The adoption of FIN 48 by the Company did not have a material impact on the Company’s financial condition or results of operation and resulted in no cumulative effect of accounting change being recorded as of January 1, 2007. The Company does not have any net liabilities recorded related to unrecognized tax benefits at March 31, 2007 and January 1, 2007. The Company will recognize potential interest and penalties related to income tax positions as a component of the provision for income taxes on the consolidated statements of income in any future periods in which the Company must record a liability. Since the Company has not recorded a liability at March 31, 2007, there would be no impact to the Company’s effective tax rate. The Company does not anticipate that total unrecognized tax benefits will significantly change during the next twelve months.

The Company conducts business in the U.S. and Canada and, as a result, the Company and its subsidiary file income tax returns in U.S. Federal, state, and Canadian jurisdictions. In the normal course of business the Company and its subsidiary are subject to examination by tax authorities in these jurisdictions. For U.S. Federal, state and Canadian tax returns, open tax years subject to examination generally include the years 2003 to present.

**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES – continued**

**Stock-based compensation**

Effective January 1, 2006, the beginning of the Company's first fiscal quarter of 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, "*Shared-Based Payment*" ("SFAS No. 123R"), using the modified-prospective transition method. Under this transition method, stock-based compensation expense was recognized in the consolidated financial statements for granted, modified, or settled stock options. Compensation expense recognized included the estimated expense for stock options granted on and subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standard No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123"). Results for prior periods have not been restated, as provided for under the modified-prospective method.

Prior to the January 1, 2006 adoption of the SFAS No. 123R, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related interpretations and as such, generally recognized no compensation cost for employee stock options granted at fair market value but recognized compensation cost for grants of employee stock-based compensation awards equal to the excess of the market price of the underlying common stock at the date of grant over the exercise price of the stock related award. As permitted by SFAS No. 123, stock-based compensation was included as a pro forma disclosure in the notes to the consolidated financial statements.

Stock-based compensation represents the cost related to stock-based awards granted to employees. The Company measures stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. The Company estimates the fair value of stock options using a Black-Scholes valuation model.

**Recent accounting pronouncements**

On January 1, 2007, the Company adopted Staff Accounting Bulletin No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*" ("SAB No. 108"). Upon the adoption of SAB No. 108, there was no effect on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS No. 159"), which seeks to improve financial reporting by providing entities with an option to minimize volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is permitted provided the Company also elects to apply the provisions of SFAS No. 157, "*Fair Value Measurements*". The Company will adopt these new requirements in its first fiscal quarter of 2008. The Company has not yet determined the effect on the Company's consolidated financial statements, if any, upon adoption of SFAS No. 159, or if it will adopt the requirements prior to the first fiscal quarter of 2008.

**3. CAPITAL STOCK**

**Common stock**

During the three month period ended March 31, 2007, there were no shares of common stock issued.

**Warrants**

During the three month period ended March 31, 2007, there were no warrants issued or exercised.

**CHEMOKINE THERAPEUTICS CORP.**  
**(A Development Stage Company)**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

3. **CAPITAL STOCK - continued**

**Common stock reserved for future issuances**

Common stock reserved for future issuances as of March 31, 2007 is as follows:

Outstanding stock options	2,847,000
Stock options available for grant	1,651,416
Outstanding stock purchase warrants	2,421,100
	<u>6,919,516</u>

4. **STOCK-BASED COMPENSATION**

As discussed in note 2, “Basis of Presentation and Significant Accounting Policies”, effective January 1, 2006 the Company adopted the fair value recognition provisions for stock-based awards granted to employees using the modified-prospective transition method provided by SFAS No. 123R.

The Company has a stock option plan under which options to purchase common stock of the Company may be granted to employees, directors and consultants. Stock options entitle the holder to purchase common stock at an exercise price determined by the Board of Directors at the time of the grant. Options vest 4% at the time of grant and then at 4% per month for 24 months, at which time the options are fully vested. Options generally expire 5 years from the date of grant.

The maximum number of shares of common stock authorized by the stockholders, reserved, remaining and available for issuance by the Board of Directors is 4,498,416. The compensation cost that has been charged against income for the three month period ended March 31, 2007 for this plan was \$ 34,835, which would be classified as research and development or general and administrative expense based on the classification of cash compensation paid to the same employees in the amounts of \$ 771 and \$ 34,064 respectively.

The fair value for stock awards was estimated at the date of grant using the Black-Scholes valuation model with the following weighted average assumptions for the three months ended March 31, 2007 and March 31, 2006:

	Three months ended March 31,	
	2007	2006
Expected term (in years)	5	5
Expected volatility	57%	16%
Risk-free interest rate	4.65%	4.62%
Expected dividend yield	0.0%	0.0%
Estimated fair value per option granted	\$ 0.35	\$ 0.25

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. For 2007, expected volatility is based on historical volatility of the Company’s stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term. The Company has not paid dividends in the past and does not plan to pay any dividends in the near future.

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**4. STOCK-BASED COMPENSATION – continued**

The Black-Scholes valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, particularly for the expected term and expected stock price volatility. The Company's stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Because the Company's stock options do not trade on a secondary exchange, option holders do not derive a benefit from holding stock options unless there is an increase, above the grant price, in the market price of the Company's stock. Such an increase in stock price would benefit all shareholders commensurately.

The fair value of each stock option granted is estimated on the date of grant using Black-Scholes valuation model. The assumptions used to calculate the fair value of options granted are evaluated and revised, as necessary, to reflect market conditions and the Company's experience. Options granted are valued using the Black-Scholes valuation approach, and the resulting expense is recognized using the graded attribution method. Compensation expense is recognized only for those options expected to vest, with forfeitures estimated at the date of grant based on the Company's historical experience and future expectations. Prior to the adoption of SFAS No. 123R, the effect of forfeitures on the pro forma expense amounts was recognized as the forfeitures occurred.

A summary of the Company's stock option activity for the three months ended March 31, 2007 is presented in the following table:

	Shares under options	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
Outstanding, January 1, 2007	2,547,000	\$ 0.92		
Granted	<u>300,000</u>	<u>0.68</u>		
Outstanding, March 31, 2007	<u>2,847,000</u>	<u>\$ 0.90</u>	<u>3.7</u>	<u>\$ 0.0</u>
Exercisable, March 31, 2007	<u>2,290,000</u>	<u>\$ 0.91</u>	<u>2.6</u>	<u>\$ 0.0</u>

The aggregate intrinsic value in the table above is based on the Company's closing stock price of \$0.77 as of the last business day of the period ended March 31, 2007, which would have been received by the optionees had all options been exercised on that date. As of March 31, 2007, total unrecognized stock-based compensation expense related to nonvested stock options was \$ 118,318 which is expected to be recognized over a weighted average period of 1.4 years. During the three months ended March 31, 2007, the total intrinsic value of stock options exercised was \$ nil and the total fair value of options vested was \$ 67,824.

**CHEMOKINE THERAPEUTICS CORP.**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**4. STOCK-BASED COMPENSATION – continued**

A summary of the status of the Company's nonvested shares as of March 31, 2007, and changes during the period ended March 31, 2007, is presented below:

Nonvested Shares	Shares	Weighted average grant-date fair value
Nonvested at January 1, 2007	408,160	\$ 0.29
Granted	300,000	0.35
Vested	(151,160)	0.45
Forfeited	—	-
Nonvested at March 31, 2007	557,000	\$ 0.31

The Company issues shares of common stock upon exercise of stock options from authorized unissued stock.

**5. RELATED PARTY TRANSACTIONS**

During the three month period ended March 31, 2007, the Company paid \$ nil (2006 - \$1,082,664) to Globe Laboratories Inc. ("Globe"), a corporation controlled by Dr. Hassan Salari, the Company's former Chief Executive Officer, for research activities performed on behalf of the Company under the terms of a development agreement. Pursuant to the development agreement, the Company engaged Globe to perform certain research activities on the basis of operating cost plus a 2% margin.

The amount due from affiliate, Globe, as at March 31, 2007 (excluding any adjustments of costs pursuant to the termination of the development agreement outlined below) was \$263,829 (2006 - \$ nil).

The Company terminated the development agreement with Globe effective on January 1, 2007. Upon notification by the Company that it intended to terminate the development agreement with Globe, the Company believes that adjustments to the operating costs charged by Globe to the Company were not properly reflected in the invoices submitted by Globe under the terms of the development agreement. These adjustments relate to scientific research and experimental development tax credits that Globe received during 2006 related to their 2005 tax year. The Company believes that the approximate amount of these adjustments that should have been included in the contracted operating costs charged by Globe is \$850,000, of which \$425,000 would be apportioned to the year ended December 31, 2006.

In addition, the Company believes that it will be entitled to an additional adjustment under the development agreement in 2007 as final costs under the development agreement are determined by Globe. This additional adjustment relates to scientific research and experimental development tax credits that Globe will be eligible to claim during 2007 related to their 2006 tax year. The Company believes that the approximate maximum amount of this additional adjustment is \$775,000.

In accordance with the termination agreement, Globe and the Company were due to settle these amounts within 60 days. As at March 31, 2007 the Company had not recorded any amounts expected to be received from Globe as the Company could not reliably estimate the actual amount that will be settled under the terms of the termination agreement, nor determine the probability of receiving any negotiated settlement amount.

**CHEMOKINE THERAPEUTICS CORP.**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**5. RELATED PARTY TRANSACTIONS - continued**

The promissory note payable, in the amount of \$CDN 250,623 plus interest, due to Globe is part of an asset purchase agreement whereby the Company acquired property and equipment from Globe at fair market value. The promissory note payable bears interest at 5% per annum calculated monthly and is due on June 30, 2007.

During the three month period ended March 31, 2007, the Company paid board compensation to its non-executive directors totaling \$ 49,000 (2006 - \$ 52,000), which are included in general and administrative expense.

During the three month period ended March 31, 2007, the Company paid consulting fees of \$ 2,209 (2006 - \$ nil) to a company controlled by a family member directly related to Dr. Hassan Salari, the Company's former Chief Executive Officer, for website administration. The Company ceased using these consulting services in January 2007.

**6. COMMITMENTS**

**Contractual agreements**

The Company has entered into various research and development agreements with non-affiliated third parties to perform research and development services on its behalf. As at March 31, 2007, the Company is committed to pay \$ 606,989 in the next nine months, in respect of contractual agreements based on invoices submitted as services provided in accordance with the contractual agreements.

**Lease agreements**

The Company leases office premises and a vehicle under operating leases which expire at various dates ending December 28, 2008. The Company is obligated to make the following minimum lease payments under its operating leases in each of the fiscal years ending December 31:

2007	\$ 180,000
2008	<u>140,700</u>
	<u>\$ 320,700</u>

During the three month period ended March 31, 2007, the Company incurred rent expense due to operating leases of \$ 21,440 (2006 - \$ 36,063), which is included in general and administrative expense in the consolidated statement of operations.

**7. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

The consolidated financial statements are presented in accordance with United States generally accepted accounting principles ("U.S. GAAP"). U.S. GAAP differs in certain material respects from Canadian generally accepted accounting principles ("Canadian GAAP"). The material differences between U.S. GAAP and Canadian GAAP are as follows:

**CHEMOKINE THERAPEUTICS CORP.**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**7. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

Consolidated statement of operations

	Three months ended March 31,	
	2007	2006 (pro forma)
Net loss under U.S. GAAP	\$ (1,611,937)	\$ (2,110,387)
Stock-based compensation intrinsic value basis (i)	—	—
Stock-based compensation fair value basis under U.S. GAAP (i)	34,835	34,647
Stock-based compensation fair value basis under Canadian GAAP (i)	<u>(34,551)</u>	<u>(35,033)</u>
Net loss under Canadian GAAP	\$ <u>(1,611,653)</u>	\$ <u>(2,110,773)</u>
Loss per share under Canadian GAAP	\$ <u>(0.04)</u>	\$ <u>(0.06)</u>

**(i) Stock-based compensation**

On January 1, 2004, the Company retroactively adopted the revised provisions of the Canadian Institute of Chartered Accountants' Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments" ("Section 3870"). Section 3870, as revised, requires stock-based compensation be charged to expense based on estimated fair value. The fair value of stock-based compensation is determined, under 3870, the same way as under SFAS No. 123 before January 1, 2006. The adoption of this revised standard impacts net loss reported under Canadian GAAP and otherwise has no impact on stockholders' equity or net cash used in operations before the adoption of SFAS No. 123R.

The Company adopted SFAS No. 123R on January 1, 2006. Generally, the approach under SFAS No. 123R is similar to the approach under Section 3870. However, SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values and requires a forfeiture assumption on the Company's unvested awards. Section 3870 does not require the forfeiture estimates.

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (continued)**

**7. DIFFERENCES BETWEEN UNITED STATES AND CANADIAN GENERALLY  
ACCEPTED ACCOUNTING PRINCIPLES - continued**

**(ii) Contributed surplus**

U.S. GAAP uses the phrase “Additional Paid-in Capital” to describe consideration received in excess of the par value of warrants and stock options. Canadian GAAP uses the phrase “Contributed Surplus”.

**(iii) Development stage disclosure**

The Company is considered a development stage Company as defined by SFAS No. 7. The Company is also considered a development stage Company under Accounting Guideline 11 “Enterprises in the development stage” of the Canadian Institute of Chartered Accountants’ Handbook.

**(iv) Foreign currency translation**

Canadian GAAP does not expressly provide for the concept of a “functional currency” with respect to foreign currency translation. However, the method of translation used by the Company is equivalent to the method required under Canadian GAAP.

**(v) Research and development**

Under U.S. GAAP, costs to purchase rights to unproven technology, which may not have alternative future uses, are expensed as research and development. Under Canadian GAAP, the purchase costs of such rights are generally capitalized as an intangible asset.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATION

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-QSB. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the section entitled "Risk Factors" in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006 and in this Quarterly Report on Form 10-QSB. Also see the section entitled "Cautionary Note Regarding Forward-Looking Statements" contained in this Quarterly Report on Form 10-QSB.*

*All references to "\$" or "dollars" in this discussion and analysis are to U.S. dollars unless otherwise noted.*

### Overview

We are a development stage biotechnology company with a focus on the discovery and development of peptide-based drugs for human diseases. In particular, we focus on the area of chemokines, small proteins that regulate a large number of physiological functions mainly in relation to the immune system. We are at various stages in research and development of five drug candidates. Two of our drug candidates are in human clinical trials. These two lead drug candidates, CTCE-9908 and CTCE-0214, are being investigated for the prevention of metastasis of cancer and for hematological support, respectively. Our other three drug candidates are in preclinical development in the areas of neovascularization (CTCE-0324), wound healing (CTCE-0422), and stroke prevention (CTCE-0501). In addition, we maintain drug discovery programs to identify potential new drug candidates.

### Limited Operating History

We have incurred significant losses since our inception in July 1998. As of March 31, 2007, our accumulated deficit was approximately \$26.1 million. We recognized net losses of \$7,507,866 and \$6,020,166 in 2006 and 2005, respectively, and approximately \$1.6 million for the three months ended March 31, 2007. We expect to continue to incur net losses in the near term as we fund clinical trials and until such time as product sales or royalty payments, or both, generate sufficient revenues to fund continuing operations. We expect to continue incurring annual losses in the process of further developing our products.

### Research and Development

Our research and development expenses consist primarily of costs associated with the clinical trials of our drug candidates, compensation and other expenses for research and development personnel, manufacturing of compounds, facility costs, supplies and materials, costs for consultants and related contract research and depreciation. Until December 31, 2006, our research activities were centralized in Vancouver, British Columbia through Globe Laboratories Inc., or Globe Laboratories, in an incubator facility on the campus of University of British Columbia. Globe Laboratories is a corporation beneficially owned by Dr. Hassan Salari and his family and that was engaged to carry out chemokine research for us on a contracted operating cost basis plus a 2% margin. Pursuant to the terms of our development agreement with Globe Laboratories, all proprietary interest, including all patent rights, trademarks, copyright, trade secrets and confidential information in the product candidates developed by Globe Laboratories for us is our exclusive property.

Effective January 1, 2007, we acquired certain assets of Globe Laboratories, consisting mainly of laboratory equipment and leasehold improvements, through our wholly-owned subsidiary Chemokine Therapeutics (B.C.) Corp., or CTBCC, for consideration of C\$375,935 reflecting the fair market value of these assets as determined by an independent appraisal. We no longer use Globe Laboratories for research and development services. We did not incur any early termination obligations by terminating our agreement with Globe Laboratories. CTBCC and Globe Laboratories also entered into a definitive agreement which provided for the assignment to CTBCC of a partial sublease by Globe Laboratories in respect of approximately 5,400 square feet of laboratory space located at the University of British Columbia. In accordance with the terms of the agreement, the majority of the former employees of Globe Laboratories have been hired by CTBCC. The purchase of the assets of Globe Laboratories and the acquisition of their key staff will allow us to have direct control and management of our research and development activities.

Through our location on the campus of the University of British Columbia and our affiliation with the University of British Columbia, we have access to a wide range of equipment and scientific facilities, such as the University of British Columbia's animal facility. This allows us to minimize costs while maintaining quality. We sub-lease 3,600 square feet of office space as well as the above-mentioned 5,400 square feet of laboratory space at the University of British Columbia.

Our research and development activities are primarily focused on the clinical trials of CTCE-9908, a drug candidate for the prevention of metastasis of cancer, and CTCE-0214, a drug candidate for hematological support. We are responsible for all costs incurred in the research and development program of these two lead drug candidates. Our research and development activities also include three other drug candidates that we intend to test in animal models of peripheral arterial disease, wound healing and stroke prevention. We expect our research and development expenses to increase as we continue to work on our drug candidates and to expand our research and development programs. Over the next twelve months, our product research and development plan is summarized as follows:

- complete the current Phase I/II clinical trial of CTCE-9908 in Canada;
- file an IND and a CTA for a randomized Phase II clinical trial(s) for CTCE-9908;
- commence a Phase II clinical trial using CTCE-9908 for prostate cancer in the United States and Canada;
- commence a Phase II clinical trial using CTCE-9908 for ovarian cancer in the United States and Canada;
- prepare continued clinical development of CTCE-0214 for neutrophil and stem cell mobilization;
- complete candidate selection for CTCE-0324; and
- continue pre-clinical testing of CTCE-0422 and CTCE-0501, additional peptides for wound healing and stroke prevention.

Clinical development timelines, likelihood of success and total costs vary widely. We anticipate that we will make determinations as to which research and development projects to pursue and how much funding to direct to each of the five projects on an ongoing basis in response to the scientific and clinical success of each product candidate, as well as an ongoing assessment of its market potential.

Completion dates and completion costs to bring a drug candidate to market vary significantly for each drug candidate given the nature of the clinical trials and the fact that more clinical trials may be needed to advance a drug candidate based upon the results of each study. In addition, we anticipate partnering with larger pharmaceutical companies to conduct and finance later stage clinical trials and therefore the timing of completion of the approval of a drug will likely not be within our control. Based on these factors we cannot reasonably estimate the completion dates and completion costs required to gain regulatory approval for the marketing and sale of our compounds. The lengthy process of seeking regulatory approvals, and subsequent compliance with applicable regulations, require the expenditure of substantial resources. Delays in obtaining regulatory approvals could cause our research and development expenditures to increase and, in turn, require additional funding.

### **Strategic Relationship and Partnering Strategy**

We plan to enter into partnership agreements for our products by the end of Phase II clinical trials or earlier. Due to the significant costs involved in conducting Phase III or Phase IV clinical trials, we intend to enter into agreements with larger biotechnology and pharmaceutical companies to co-develop our products through Phase III and Phase IV of clinical trials, thereby sharing the costs. As our focus is on the discovery and development of drug candidates, we intend to license the marketing rights of the products to companies with existing infrastructure for the marketing of pharmaceutical drugs. In addition, we will rely on third-party manufacturers with manufacturing capabilities to produce sufficient quantities of these products for clinical studies and large-scale commercialization upon their approval.

### **General and Administrative**

General and administrative expenses consist primarily of salaries and other related costs for personnel in executive, finance, accounting and business development functions. Other costs include consulting, legal and accounting services fees, investor relations, patent fees, marketing and promotion and facility costs not otherwise included in research and development expenses.

## **Capital Expenditures**

We intend to acquire laboratory equipment over the next three years at an estimated cost of \$520,000. This amount includes approximately \$355,000 paid for the acquisition of laboratory equipment and leasehold improvements purchased from Globe Laboratories in January 2007.

## **Foreign Exchange**

We use the U.S. dollar as our functional currency, and present the consolidated financial statements in U.S. dollars using the current rate method. Under the current rate method, all assets and liabilities are translated using the exchange rate at the balance sheet date and translates revenues, expenses, gains and losses at the weighted average rates of exchange for the respective periods. Before consolidation the financial statements of CTBCC are remeasured from its local currency of Canadian dollars to its functional currency of U.S. dollars at the end of each reporting period. Monetary items of CTBCC's financial statements are remeasured by applying the current exchange rate and non-monetary items are remeasured by applying historical exchange rates. We include the resulting exchange gain or loss in foreign currency upon remeasurement in the foreign exchange gain or loss account in the consolidated statement of operations.

Fluctuations in the relative values of the Canadian and U.S. dollars can affect the reported value of Canadian dollar denominated assets and liabilities on our balance sheet. A strengthening (weakening) Canadian dollar in relation to the U.S. dollar results in higher (lower) reported values for our Canadian dollar denominated assets and liabilities.

## **Critical Accounting Policy**

Our discussion and analysis of financial condition and results of operations are based on our financial statements, which have been prepared in accordance with United States generally accepted accounting principles. Differences between U.S. and Canadian GAAP are presented in Note 7 to our quarterly financial statements. The preparation of financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosure of contingent assets and liabilities. We review our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. While our significant accounting policies are described in Note 2 to our quarterly financial statements, we believe the following accounting policy to be critical.

## **Stock-Based Compensation**

Effective January 1, 2006, the beginning of our first fiscal quarter of 2006, we adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" (SFAS 123R), using the modified-prospective transition method. Under this transition method, stock-based compensation expense is recognized in the consolidated financial statements for granted, modified, or settled stock options. Compensation expense recognized includes the estimated expense for stock options granted on and subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R, and the estimated expense for the portion vesting in the period for options granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Results for prior periods have not been restated, as provided for under the modified-prospective method.

Prior to the January 1, 2006 adoption of SFAS No. 123R, we accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations and as such, generally recognized no compensation cost for employee stock options granted at fair market value but recognized compensation cost for grants of employee stock-based compensation awards equal to the excess of the market price of the underlying common stock at the date of grant over the exercise price of the stock related award. As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," stock-based compensation was included as a pro forma disclosure in the notes to the consolidated financial statements. SFAS 123R is a revision of SFAS No. 123, and supersedes APB Opinion No. 25.

Stock-based compensation represents the cost related to stock-based awards granted to employees. We measure stock-based compensation cost at grant date, based on the estimated fair value of the award, and recognize the cost as expense on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. We estimate the fair value of stock options using a Black-Scholes option valuation model.

As of March 31, 2007, total unrecognized stock-based compensation expense related to nonvested stock options was \$118,318, which is expected to be recognized over a weighted average period of approximately 1.4 years.

## **Results of Operations**

### **Three Months Ended March 31, 2007, and 2006**

#### *Revenues.*

We had no revenues in the three months ended March 31, 2007 and in the three months ended March 31, 2006.

#### *Research and development.*

Research and development expenses were \$715,246 during the three months ended March 31, 2007, a decrease of \$705,762 from the \$1,421,008 for the three months ended March 31, 2006. The decrease in research and development expenses in the current period was primarily attributable to a reduction of spending on our early stage compounds, while continuing efforts with our compound CTCE-9908. Research and development expenses include contract research, manufacturing, laboratory supplies, and staff salaries.

We recorded direct costs for CTCE-9908 of approximately \$395,600 for the three months ended March 31, 2007, which included preparatory and clinical trial costs of the Phase I/II clinical trial currently underway, and related manufacturing of compound. This compares to approximately \$591,100 for the three months ended March 31, 2006. The decrease in direct costs for CTCE-9908 in the current period was primarily attributed to clinical trial startup costs, production of drug supplies, and supportive and analytical work that was incurred in the comparative quarter in 2006.

Direct costs for CTCE-0214 were approximately \$182,400 for the three months ended March 31, 2007 compared to \$611,600 for the three months ended March 31, 2006. The decrease in CTCE-0214 direct costs in the current period reflects a reduction of spending on preclinical studies in keeping with a progression to a clinical phase of development.

We expect that research and development expenses will increase in the future as and when we incur costs for clinical trials. Completion dates and completion costs to bring a drug candidate to market vary significantly for each drug candidate given the nature of the clinical trials and the fact that more clinical trials may need to be conducted to advance a drug candidate based upon the results of each phase. In addition, we anticipate partnering with larger pharmaceutical companies to conduct and finance later stage clinical trials and therefore the timing of completion of the approval of a drug will likely not be within our control. Based on these factors we cannot reasonably estimate the completion dates and completion costs required to gain regulatory approval of our compounds for sale. Drug candidates are required to successfully complete Phase III clinical trials before gaining regulatory approval for sale which for our drug candidates is not expected to occur for several years.

#### *General and administrative.*

General and administrative expenses for the three months ended March 31, 2007 were \$862,805, compared to \$630,705 for the three months ended March 31, 2006. The increase of \$232,100 was in respect of increased legal, professional, patent, and audit fees incurred.

#### *Interest income.*

Interest income was \$56,572 for the three months ended March 31, 2007 compared with \$49,201 for the three months ended March 31, 2006.

#### *Net loss.*

We incurred a net loss of \$1,611,937 (\$0.04 per share) for the three months ended March 31, 2007 compared to \$2,110,387 (\$0.06 per share) for the three months ended March 31, 2006. The decrease in our net loss was principally caused by the decrease in research and development expenditures as described above.

## **Liquidity and Capital Resources**

Since our inception, we have financed substantially all of our operations through the private and public offerings of equity securities. We have received a total of \$28.6 million from private offerings of our equity securities. In December 2004, we completed the initial public offering of shares of our common stock and raised approximately \$13.3 million (C\$16 million). In January 2005, the agents in our initial public offering exercised their over-allotment option which resulted in additional gross proceeds to us of approximately \$1.9 million (C\$2.4

million). In March 2006, we issued 6,471,698 shares of common stock in a private placement transaction for gross proceeds of approximately \$5.9 million (C\$6.9 million) and net proceeds after offering costs of approximately \$5.4 million.

At March 31, 2007, we had approximately \$4.5 million in cash and cash equivalents and short term investments on hand, compared to approximately \$6.1 million as of December 31, 2006, a decrease of \$1.6 million. Our working capital at March 31, 2007 was approximately \$4.3 million, compared to approximately \$5.9 million at December 31, 2006, a decrease of approximately \$1.6 million.

For the three months ended March 31, 2007, we used net cash of approximately \$1.12 million in operating activities comprising the majority of the net loss for the period of approximately \$1.6 million. Net cash generated from investing activities for the three months ended March 31, 2007 was approximately \$295,000 as a result of the redemption of short term investments amounting to approximately \$650,000 and purchase of property and equipment of approximately \$355,000. This compares to approximately \$5.8 million of cash generated from our private placement for the three months ended March 31, 2006.

We believe that our current funds will be sufficient to fund our operations until January 31, 2008. However, our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary materially.

We will continue to incur substantial operating losses. We cannot accurately forecast our future capital requirements because such forecasts depend on many factors, including:

- the rate of progress and cost of our planned or future clinical trials and other development activities;
- the scope, prioritization and number of clinical development and research programs we pursue;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the costs and timing of regulatory approval;
- the costs of establishing or contracting for manufacturing, sales and marketing capabilities;
- the costs of expanding our facilities to support our operations;
- the effect of competing technological and market developments; and
- the terms and timing of any collaborative, licensing and other arrangements that we may establish.

We intend to seek additional funding through licensing arrangements or through public or private financings. However, such additional financing may not be available to us on acceptable terms, or at all, and we may not be able to enter into licensing arrangements on terms that are favorable to us, if at all.

### **Off-Balance Sheet Arrangements**

We do not have, and do not have any present plans to implement, any off-balance sheet arrangements.

### **Risk Factors**

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006. The risk factors disclosed in our Annual report on Form 10-KSB for the fiscal year ended December 31, 2006, in addition to the other information set forth in this Quarterly Report on Form 10-QSB, could materially affect our business, financial condition, or results. Additional risks and uncertainties not currently known to us or that we deem to be immaterial could also materially adversely affect our business, financial condition, or results.

### **Cautionary Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-QSB includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including statements of our expectations regarding research and development, revenues, selling, general and administrative expenses, profitability, financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect" and similar expressions, as they relate to us, are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in "Risk Factors" section of our Annual Report on Form 10-KSB for the year ended December 31, 2006 and this Quarterly Report on Form 10-QSB, including, among other things:

- our anticipated business strategies;
- our anticipated clinical trials;
- our intention to introduce new product candidates;
- our relationships with third parties, including manufacturers, clinical research organizations, collaborative partners, marketing and distribution partners, contract sales organizations and suppliers;
- anticipated trends in our business;
- sufficiency of resources to fund operating and capital requirements;
- operating cash burn rates;
- future capital expenditures;
- our ability to conduct clinical trials and obtain and maintain regulatory approval in the U.S. and in other major markets;
- reimbursement by third party and government payors; and
- our ability to protect our intellectual property and conduct our business without infringing patents of others.

These risks are not exhaustive. We operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We assume no obligation to update any forward-looking statements after the date of this prospectus as a result of new information, future events or developments, except as required by federal securities laws.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur and actual results could differ materially from those projected in the forward-looking statements.

### **ITEM 3. CONTROL AND PROCEDURES**

We performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer (together, our "Certifying Officers"), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities and Exchange Act of 1934, as amended).

Based on their evaluation, as of the end of the period covered by this Quarterly Report, our Certifying Officers concluded that our disclosure controls and procedures are not effective in providing reasonable assurance that information required to be disclosed by us in our periodic reports filed with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified by the applicable Securities and Exchange Commission's rules and forms and was accumulated and communicated to our management, including our Certifying Officers, or persons performing similar functions as appropriate, to allow timely decisions regarding disclosure.

As previously disclosed in Item 8A of our Annual Report on Form 10-KSB for the year ended December 31, 2006, our management and our independent registered public accounting firm identified deficiencies in disclosure controls for related party transactions.

The deficiency impacted our ability to vigorously collect and scrutinize the financial information supplied from related parties.

Notwithstanding the deficiencies described above, our Certifying Officers believe that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

The Audit Committee and the board of directors took action at their May 11, 2007 meetings that they believe, upon implementation, will remediate the deficiencies described above, including the adoption of a related person transaction policy that prohibits related parties from being involved in collecting financial information on our behalf.

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
31.1	— Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	— Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	— Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

## SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHEMOKINE THERAPEUTICS CORP.

Dated: May 14, 2007

/s/ BASHIR JAFFER  
Bashir Jaffer  
Chief Financial Officer

## EXHIBIT INDEX

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**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, C. Richard Piazza, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB for the quarter ended March 31, 2007, of Chemokine Therapeutics Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2007

/s/ C. RICHARD PIAZZA

C. Richard Piazza  
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bashir Jaffer, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB for the quarter ended March 31, 2007, of Chemokine Therapeutics Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2007

/s/ BASHIR JAFFER

Bashir Jaffer  
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT  
TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, C. Richard Piazza, Chief Executive Officer of Chemokine Therapeutics Corp. (the “Company”), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report of the Company on Form 10-QSB for the quarter ended March 31, 2007, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. RICHARD PIAZZA

C. Richard Piazza  
Chief Executive Officer

May 14, 2007

I, Bashir Jaffer, Chief Financial Officer of Chemokine Therapeutics Corp. (the “Company”), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report of the Company on Form 10-QSB for the quarter ended March 31, 2007, as filed with the Securities and Exchange Commission (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ BASHIR JAFFER

Bashir Jaffer  
Chief Financial Officer

May 14, 2007